

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **September 30, 2021**

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-55954**

**ESPORTS ENTERTAINMENT GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State of  
incorporation)

**000-55954**

(Commission  
File No.)

**26-3062752**

(IRS Employer  
Identification No.)

**13/14 Penthouse Office, Mannarino Road  
Birkirkara, Malta, BKR 9080**

(Address of principal executive offices)

**356 2713 1276**

(Registrant's telephone number, including area code)

**170 Pater House, Psaila Street  
Birkirkara, Malta, BKR 9077**

(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class  | Trading Symbol(s) | Name of each exchange on which registered<br>Symbol(s) |
|--|-------------------|--|
| Common Stock   | GMBL              | The Nasdaq Stock Market LLC                            |
| Common Stock Purchase Warrants                                   | GMBLW             | The Nasdaq Stock Market LLC                            |
| 10.0% Series A Cumulative Redeemable Convertible Preferred Stock | GMBLP             | The Nasdaq Stock Market LLC                            |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☒

Emerging growth company

☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 11(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 12, 2021, there were 22,390,453 shares of common stock, par value \$0.001 issued and outstanding.

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**Esports Entertainment Group, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

|   | <u>September 30, 2021</u> | <u>June 30, 2021</u>  |
|---|---------------------------|-----------------------|
| <b>ASSETS</b>   |                           |                       |
| <b>Current assets</b>   |                           |                       |
| Cash  | \$ 2,817,536              | \$ 19,917,196         |
| Restricted cash   | 1,055,101                 | 3,443,172             |
| Receivables reserved for users  | 5,061,768                 | 2,290,105             |
| Accounts receivable, net  | 377,673                   | 136,681               |
| Other receivables   | 803,704                   | 658,745               |
| Prepaid expenses and other current assets   | 2,922,104                 | 3,264,344             |
| <b>Total current assets</b>   | <b>13,037,886</b>         | <b>29,710,243</b>     |
| Equipment, net  | 789,637                   | 726,942               |
| Operating lease right-of-use asset  | 1,168,635                 | 1,272,920             |
| Intangible assets, net  | 59,030,190                | 45,772,555            |
| Goodwill  | 52,328,021                | 40,937,370            |
| Other non-current assets  | 2,441,080                 | 1,315,009             |
| <b>TOTAL ASSETS</b>   | <b>\$ 128,795,449</b>     | <b>\$ 119,735,039</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                           |                       |
| <b>Current liabilities</b>  |                           |                       |
| Accounts payable and accrued expenses   | \$ 11,599,709             | \$ 8,458,689          |
| Payable for Bethard acquisition   | 4,629,388                 | -                     |
| Liabilities to customers  | 6,116,869                 | 3,057,942             |
| Deferred revenue  | 151,045                   | 22,110                |
| Current portion of notes payable and other long-term debt   | 219,024                   | 223,217               |
| Operating lease liability - current   | 375,628                   | 414,215               |
| Contingent consideration - current  | 3,266,000                 | -                     |
| <b>Total current liabilities</b>  | <b>26,357,663</b>         | <b>12,176,173</b>     |
| Senior convertible note, net of unamortized discount  | 7,941,998                 | 6,302,504             |
| Notes payable and other long-term debt  | 165,599                   | 221,300               |
| Warrant liability   | 11,691,400                | 23,500,000            |
| Deferred income taxes   | 5,503,861                 | 1,870,861             |
| Operating lease liability - non-current   | 820,082                   | 878,809               |
| Contingent consideration - non-current  | 2,583,480                 | -                     |
| <b>Total liabilities</b>  | <b>55,064,083</b>         | <b>44,949,647</b>     |
| Commitments and contingencies (Note 13)   |                           |                       |
| <b>Mezzanine equity:</b>  |                           |                       |
| 10% Series A cumulative redeemable convertible preferred stock, \$0.001 par value, 1,725,000 authorized, none issued and outstanding, liquidation preference \$11.00 per share  | -                         | -                     |
| <b>Stockholders' equity</b>   |                           |                       |
| Preferred stock \$0.001 par value; 10,000,000 shares authorized, none issued and outstanding  | -                         | -                     |
| Common stock \$0.001 par value; 500,000,000 shares authorized, 21,983,172 and 21,896,145 shares issued and outstanding as of September 30, 2021 and June 30, 2021, respectively | 21,983                    | 21,896                |
| Additional paid-in capital  | 123,264,256               | 122,341,002           |
| Accumulated deficit   | (47,460,717)              | (46,908,336)          |
| Accumulated other comprehensive loss  | (2,094,156)               | (669,170)             |
| <b>Total stockholders' equity</b>   | <b>\$ 73,731,366</b>      | <b>\$ 74,785,392</b>  |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Esports Entertainment Group, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

|   | <b>Three Months Ended September 30,</b> |                     |
|---|---|---------------------|
|   | <b>2021</b>                             | <b>2020</b>         |
| Net revenue   | \$ 16,408,291                           | \$ 222,392          |
| <b>Operating costs and expenses:</b>                                    |   |                     |
| Cost of revenue   | 6,451,292                               | 420,075             |
| Sales and marketing   | 7,386,463                               | 604,118             |
| General and administrative  | 11,175,136                              | 3,055,808           |
| Total operating expenses  | <u>25,012,891</u>                       | <u>4,080,001</u>    |
| <b>Operating loss</b>   | 8,604,600                               | 3,857,609           |
| <b>Other income (expense):</b>  |   |                     |
| Interest expense  | (2,345,196)                             | (1)                 |
| Change in fair value of warrant liability                               | 11,808,600                              | 2,100,953           |
| Other non-operating loss  | (1,411,185)                             | (51,836)            |
| Total other income  | <u>8,052,219</u>                        | <u>2,049,116</u>    |
| Loss before income taxes  | 552,381                                 | 1,808,493           |
| Income tax benefit (expense)  | <u>-</u>                                | <u>-</u>            |
| Net loss  | <u>\$ 552,381</u>                       | <u>\$ 1,808,493</u> |
| Basic and diluted loss per common share                                 | <u>\$ (0.03)</u>                        | <u>\$ (0.15)</u>    |
| Weighted average number of common shares outstanding, basic and diluted | <u>21,954,892</u>                       | <u>12,173,038</u>   |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Esports Entertainment Group, Inc.**  
**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**(Unaudited)**

|  | <b>Three Months Ended September 30,</b> |                     |
|--|---|---------------------|
|  | <b>2021</b>                             | <b>2020</b>         |
| Net loss                                 | \$ 552,381                              | \$ 1,808,493        |
| <b>Other comprehensive loss:</b>         |   |                     |
| Foreign currency translation loss (gain) | 1,424,986                               | (941)               |
| Total comprehensive loss                 | <u>\$ 1,977,367</u>                     | <u>\$ 1,807,552</u> |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Esports Entertainment Group, Inc.**  
**Condensed Consolidated Statements of Changes in Stockholders' Equity**  
**For the Three Months Ended September 30, 2021 and 2020**  
**(Unaudited)**

|  | <b>Common Stock</b> |                  | <b>Additional<br/>paid-in<br/>capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Accumulated<br/>other<br/>comprehensive<br/>loss</b> | <b>Total</b>         |
|--|---------------------|------------------|---|--------------------------------|---|----------------------|
|  | <b>Shares</b>       | <b>Amount</b>    |   |                                |   |                      |
| Balance as at July 1, 2021                                   | 21,896,145          | \$ 21,896        | \$ 122,341,002                            | \$ (46,908,336)                | \$ (669,170)  | \$ 74,785,392        |
| Common stock issued upon the exercise of stock options       | 8,500               | 8                | 40,961                                    | -                              | -   | 40,969               |
| Common stock issued for services                             | 78,527              | 79               | 574,220                                   | -                              | -   | 574,299              |
| Stock based compensation                                     | -                   | -                | 308,073                                   | -                              | -   | 308,073              |
| Foreign exchange translation                                 | -                   | -                | -   | -                              | (1,424,986)   | (1,424,986)          |
| Net loss   | -                   | -                | -   | (552,381)                      | -   | (552,381)            |
| Balance as at September 30, 2021                             | <u>21,983,172</u>   | <u>\$ 21,983</u> | <u>\$ 123,264,256</u>                     | <u>\$ (47,460,717)</u>         | <u>\$ (2,094,156)</u>                                   | <u>\$ 73,731,366</u> |
| Balance as at July 1, 2020                                   | 11,233,223          | \$ 11,233        | \$ 31,918,491                             | \$ (20,535,602)                | \$ -  | \$ 11,394,122        |
| Common stock issued upon the exercise of warrants            | 275,463             | 276              | 1,024,648                                 | -                              | -   | 1,024,924            |
| Common stock and warrants issued for LHE Enterprises Limited | 650,000             | 650              | 3,802,500                                 | -                              | -   | 3,803,150            |
| Common stock issued for Flip Acquisition                     | 93,808              | 94               | 499,906                                   | -                              | -   | 500,000              |
| Common stock issued for services                             | 291,256             | 291              | 1,873,551                                 | -                              | -   | 1,873,842            |
| Stock based compensation                                     | -                   | -                | 36,035                                    | -                              | -   | 36,035               |
| Foreign exchange translation                                 | -                   | -                | -   | -                              | 941   | 941                  |
| Net loss   | -                   | -                | -   | (1,808,493)                    | -   | (1,808,493)          |
| Balance as at September 30, 2020                             | <u>12,543,750</u>   | <u>\$ 12,544</u> | <u>\$ 39,155,131</u>                      | <u>\$ (22,344,095)</u>         | <u>\$ 941</u>   | <u>\$ 16,824,521</u> |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Esports Entertainment Group, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

|   | <b>Three Months Ended September 30,</b> |                     |
|---|---|---------------------|
|   | <b>2021</b>                             | <b>2020</b>         |
| <b>Cash flows from operating activities:</b>                                |   |                     |
| Net loss  | \$ (552,381)                            | \$ (1,808,493)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |                     |
| Amortization and depreciation   | 3,230,736                               | 266,448             |
| Right-of-use asset amortization   | 111,616                                 | -                   |
| Stock-based compensation  | 882,372                                 | 1,007,672           |
| Amortization of debt discount   | 1,639,494                               | -                   |
| Change in fair value of warrant liability                                   | (11,808,600)                            | (2,100,953)         |
| Other non-cash charges, net   | (92,820)                                | -                   |
| Changes in operating assets and liabilities:                                |   |                     |
| Accounts receivable   | (220,660)                               | -                   |
| Receivables reserved for users  | (2,878,302)                             | (195,213)           |
| Other receivables   | 360,125                                 | 21,619              |
| Prepaid expenses and other current assets                                   | 331,953                                 | (32,888)            |
| Other non-current assets  | 131                                     | -                   |
| Accounts payable and accrued expenses                                       | 2,772,657                               | (805,338)           |
| Liabilities to customers  | 2,793,781                               | 381,325             |
| Deferred revenue  | 128,935                                 | -                   |
| Operating lease liability   | (90,256)                                | 1,978               |
| Net cash used in operating activities                                       | <u>(3,391,219)</u>                      | <u>(3,263,843)</u>  |
| <b>Cash flows from investing activities:</b>                                |   |                     |
| Cash consideration paid for Bethard acquisition, net of cash acquired       | (14,947,835)                            | -                   |
| Cash consideration paid for Argyll, net of cash acquired                    | -                                       | (669,991)           |
| Cash consideration paid for FLIP  | -                                       | (100,000)           |
| Payments made in connection with loans receivable                           | -                                       | (250,000)           |
| Purchase of intangible assets   | (38,606)                                | (98,136)            |
| Purchases of equipment  | (56,440)                                | (2,520)             |
| Net cash used in investing activities                                       | <u>(15,042,881)</u>                     | <u>(1,120,647)</u>  |
| <b>Cash flows from financing activities:</b>                                |   |                     |
| Payment of Bethard contingent consideration                                 | (850,520)                               | -                   |
| Proceeds from exercise of stock options and warrants, net of issuance costs | 4,015                                   | 1,024,924           |
| Repayment of notes payable and finance lease                                | (52,857)                                | -                   |
| Net cash provided by (used in) financing activities                         | <u>(899,362)</u>                        | <u>1,024,924</u>    |
| Effect of exchange rate on changes in cash and restricted cash              | (154,269)                               | (108,257)           |
| Net increase (decrease) in cash and restricted cash                         | (19,487,731)                            | (3,467,823)         |
| Cash and restricted cash, beginning of period                               | 23,360,368                              | 12,353,307          |
| Cash and restricted cash, end of period                                     | <u>\$ 3,872,637</u>                     | <u>\$ 8,885,484</u> |

Reconciliation of cash and restricted cash to the unaudited condensed consolidated balance sheets:

|                 | <b>September 30, 2021</b> | <b>September 30, 2020</b> |
|-----------------|---------------------------|---------------------------|
| Cash            | \$ 2,817,536              | \$ 8,885,484              |
| Restricted cash | 1,055,101                 | -                         |
|                 | <u>\$ 3,872,637</u>       | <u>\$ 8,885,484</u>       |

Reconciliation of cash and restricted cash at the beginning of the period follows:

|                 | <b>June 30, 2021</b> | <b>June 30, 2020</b> |
|-----------------|----------------------|----------------------|
| Cash            | \$ 19,917,196        | \$ 12,353,307        |
| Restricted cash | 3,443,172            | -                    |
|                 | <u>\$ 23,360,368</u> | <u>\$ 12,353,307</u> |

CASH PAID FOR:

|              |    |         |    |   |
|--------------|----|---------|----|---|
| Interest     | \$ | 700,000 | \$ | - |
| Income taxes | \$ | -       | \$ | - |

SUPPLEMENTAL DISLCOSURE OF NON-CASH FINANCING ACTIVITIES:

|   |    |           |    |           |
|---|----|-----------|----|-----------|
| Cash consideration payable for Bethard acquisition  | \$ | 4,721,852 | \$ | -         |
| Fair value of contingent consideration payable in cash and common stock for Bethard acquisition | \$ | 6,700,000 | \$ | -         |
| Common stock issued for Argyll  | \$ | -         | \$ | 3,802,500 |
| Settlement of Argyll acquisition warrant liability for common stock                             | \$ | -         | \$ | 5,488,171 |
| Common stock issued for FLIP acquisition at closing   | \$ | -         | \$ | 500,000   |
| Settlement of FLIP contingent consideration in common stock                                     | \$ | -         | \$ | 500,000   |
| Share settlement of liabilities to be settled in stock account                                  | \$ | -         | \$ | 927,855   |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Esports Entertainment Group, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 1 – Nature of Operations**

Esports Entertainment Group, Inc. (“Company” or “EEG”) was formed in the State of Nevada on July 22, 2008 under the name Virtual Closet, Inc., before changing its name to DK Sinopharma, Inc. on June 6, 2010 and then to, VGambling, Inc. on August 12, 2014. On or about April 24, 2017, VGambling, Inc. changed its name to Esports Entertainment Group, Inc.

The Company is a diversified operator of iGaming, traditional sports betting and esports businesses with a global footprint. The Company’s strategy is to build and acquire iGaming and traditional sports betting platforms and use them to grow the esports business whereby customers have access to game centers, online tournaments and player-versus-player wagering. On July 31, 2020, the Company commenced revenue generating operations with the acquisition of LHE Enterprises Limited, a holding company for Argyll Entertainment (“Argyll”), an online sportsbook and casino operator. On January 21, 2021, the Company completed its acquisition of Phoenix Games Network Limited, the holding company for the Esports Gaming League (“EGL”), and provider of event management and team services, including live and online events and tournaments. On March 1, 2021, the Company completed the acquisition of the operating assets and specified liabilities that comprise the online gaming operations of Lucky Dino Gaming Limited, a company registered in Malta, and Hiidenkivi Estonia OU, its wholly owned subsidiary registered in Estonia (collectively referred to as “Lucky Dino”).

On June 1, 2021, the Company also acquired Helix Holdings, LLC (“Helix”) and ggCircuit, LLC (“GGC”). Helix is an owner and operator of esports centers that provide esports programming and gaming infrastructure and is also the owner of the Genji Analytics, an analytics platform, and LANduel, a proprietary player-versus-player wagering platform. GGC is a business-to-business software company that provides cloud-based management for gaming centers, a tournament platform and integrated wallet and point-of-sale solutions. On July 13, 2021, the Company completed its acquisition of the online casino and sports book business operating under the brand of Bethard (referred to herein as “Bethard”). Bethard’s business-to-consumer operations that provides sportsbook, casino, live casino and fantasy sport betting services with gaming licenses to customers in Sweden, Spain, Malta and Ireland.

**Note 2 – Summary of Significant Accounting Policies****Basis of presentation and principles of consolidation**

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, and with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) set forth in Article 8 of Regulation S-X. Pursuant to the rules and regulations of the SEC, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been omitted. The unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full fiscal year. The unaudited condensed consolidated financial statements should be read along with the Annual Report filed on Form 10-K of the Company for the annual period ended June 30, 2021.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

**Reportable Segment**

The Company determined it has one reportable segment. This determination considers the organizational structure of the Company and the nature of financial information available and reviewed by the chief operating decision maker to assess performance and make decisions about resource allocations.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on the reported results of operations or total assets, liabilities and stockholders' equity. The amounts previously reported in other income and foreign exchange loss were reclassified to other non-operating income (loss) on the unaudited condensed consolidated statements of operations. The prior period amounts reported as taxes payable and equity to be issued were classified to accounts payable and accrued expenses for the current period presentation on the unaudited condensed consolidated balance sheets.

**Use of estimates**

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation and accounting for equity awards related to warrants and stock-based compensation, determination of fair value for derivative instruments, the accounting for business combinations, including estimating contingent consideration and allocating purchase price, estimating the useful life of fixed assets and intangible assets, as well as the estimates related to accruals and contingencies.

**Liquidity and Going Concern**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will continue in operation one year after the date these financial statements are issued and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The evaluation of going concern under the accounting guidance requires significant judgment. The Company must consider it has historically incurred losses and negative cash flows in recent years as it has prepared to grow its esports business through acquisition and new venture opportunities. The Company must also consider its current liquidity as well as future market and economic conditions that may be deemed outside the control of the Company as it relates to obtaining financing and generating future profits. As of September 30, 2021, the Company had approximately \$2,817,536 of available cash on-hand. On November 12, 2021, one business day preceding this filing, the Company had approximately \$1,301,846 of available cash on-hand. The Company believes that its current level of cash and cash equivalents are not sufficient to fund its operations and obligations without additional financing. Although the Company has financing available, as further described below, the ability to raise financing using these sources is subject to several factors, including market and economic conditions, performance, and investor sentiment as it relates to the Company and the esports and iGaming industry. These conditions were determined to raise substantial doubt regarding our ability to continue as a going concern for a period of at least one year from the date of issuance of these unaudited condensed consolidated financial statements.

In determining whether there is substantial doubt about the Company's ability to continue as a going concern, the Company may consider the effects of any mitigating plans for additional sources of financing. The Company identified additional financing sources it believes are currently available to fund its operations and drive future growth that include (i) the announcement on November 11, 2021 of the pricing of an underwritten registered public offering by the Company to issue 800,000 shares of 10.0% Series A cumulative redeemable convertible preferred stock ("Series A Preferred Stock") with a liquidation preference of \$11.00 per share, and at a purchase price of \$10.00 per share, for total gross proceeds to be raised of \$8.0 million before deducting underwriting discounts, other estimated offering expenses and the payment of €4,000,000 (approximately \$4,721,852 using exchange rates in effect at the acquisition date) due for the acquisition of the Bethard business (see Note 3 for discussion of the Bethard acquisition and Note 17 for further discussion of the Series A Preferred Stock), (ii) the ability to access capital using the at-the-money ("ATM") equity offering program available to the Company whereby the Company has sold 1,250 shares to raise gross proceed of \$8,046 and has \$19,991,954 in gross proceeds remaining under the ATM equity offering program (iii) the ability to sell shares of common stock of the Company through a shelf registration statement on Form S-3 (File No. 333-252370) declared effective by the Securities and Exchange Commission (SEC) on February 5, 2021, and (iv) the ability to raise additional financing from other sources. These above plans are likely to require the Company to place reliance on several factors, including favorable market conditions, to access additional capital in the future. These plans were therefore determined not to be sufficient to overcome the presumption of substantial doubt about the Company's ability to continue as a going concern.

*COVID-19*

In December 2019, a novel strain of coronavirus (“COVID-19”) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to several other countries and infections have been reported globally. Due to the outbreak of COVID-19, almost all major sports events and leagues were postponed or put-on hold, for the period from April 2020 through June 2020. The cancelation of major sports events had a significant short-term negative effect on betting activity globally. As a result, iGaming and event operators faced major short-term losses in betting volumes. Online casino operations have generally continued as normal without any noticeable disruption due to the COVID-19 outbreak. The virus’s expected effect on online casino activity globally is expected to be overall positive or neutral.

Travel restrictions and border closures have not materially impacted the Company’s ability to manage and operate the day-to-day functions of the business. Management has been able to operate in a virtual setting. However, if such restrictions become more severe, they could negatively impact those activities in a way that would harm the business over the long term. Travel restrictions impacting people can restrain the ability to operate, but at present we do not expect these restrictions on personal travel to be material to the Company’s operations or financial results.

The ultimate impact of the COVID-19 pandemic on the Company’s operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or the Company, may direct, which may result in an extended period of continued business disruption and reduced operations. Any resulting financial impact cannot be reasonably estimated at this time but may have a material adverse impact on our business, financial condition and results of operations.

### **Cash and Cash Equivalents**

Cash includes cash on hand. Cash equivalents consist of highly liquid financial instruments purchased with an original maturity of three months or less. As of September 30, 2021 and June 30, 2021 the Company did not have any financial instruments classified as cash equivalents. At times, cash deposits inclusive of restricted cash may exceed Federal Deposit Insurance Corporation (“FDIC”) insured limits. The Company’s cash is held with financial institutions, and the account balances may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit at times. Accounts are insured by the FDIC up to \$250,000 per financial institution. There have been no losses recognized on cash balances held at these financial institutions.

### **Restricted Cash**

Restricted cash includes cash reserves maintained for compliance with gaming regulations that require adequate liquidity to satisfy the Company’s liabilities to customers.

### **Receivables Reserved for Users**

User deposit receivables are stated at the amount the Company expects to collect from a payment processor. A user initiates a deposit with a payment processor, and the payment processor remits the deposit to the Company. The amount due from the payment processor is recorded as a receivable reserved for users on the consolidated balance sheets. An allowance for doubtful accounts may be established if it is determined that the Company is unable to collect a receivable from a payment processor. An increase to the allowance for doubtful accounts is recognized as a loss within general and administrative expenses in the consolidated statements of operations. The allowance for doubtful accounts is not material to the consolidated financial statements.

### **Liabilities to Customers**

The Company records liabilities to customers, also referred to as player liabilities, for the amounts that may be withdrawn by a player at a given time. The player liabilities include player deposits, bonuses or incentive awards and user winnings less withdrawals, tax withholdings and player losses. The Company maintains a restricted cash balance and player deposits held by third parties, recorded as receivables reserved for users on the unaudited condensed consolidated balance sheets, at levels that equal to or exceeding its liabilities to customers.

### **Business Combinations**

The Company accounts for business combinations using the acquisition method of accounting. The Company records the assets acquired, liabilities assumed and acquisition-related contingent consideration at fair value on the date of acquisition. The difference between the purchase price, including any contingent consideration, and the fair value of net assets acquired is recorded as goodwill. The Company may adjust the preliminary purchase price and purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as it obtains more information as to facts and circumstances that impact the determination of fair value at the acquisition date. Any change in fair value of acquisition-related contingent consideration resulting from events after the acquisition date is recognized in earnings. Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred.

### **Impairment of Long-Lived Assets**

Equipment and other long-lived assets, including finite lived intangibles, are evaluated for impairment periodically or when events and circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated, an estimate of future undiscounted cash flows are determined through estimated disposition date of the asset. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized equal to the difference between the carrying value of such asset and its fair value, considering external market participant assumptions. An estimation of future cash flows requires significant judgment as the Company makes assumptions about future revenues and market conditions. Since the determination of future cash flows is an estimate of future performance, there may be impairments recognized in future periods in the event future cash flows do not meet expectations. There was no impairment of long-lived assets identified for the three months ended September 30, 2021 and 2020.

## Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements or in the Company's tax returns. Deferred tax assets and liabilities are determined on the basis of the differences between U.S. GAAP treatment and tax treatment of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Changes in deferred tax assets and liabilities are recorded in the provision for income taxes. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes, based upon the weight of available evidence, that it is more likely than not that all or a portion of the deferred tax assets will not be realized, a valuation allowance is established through a charge to income tax expense. Potential for recovery of deferred tax assets is evaluated by considering taxable income in carryback years, existing taxable temporary differences, prudent and feasible tax planning strategies and estimated future taxable profits.

The Company accounts for uncertainty in income taxes recognized in the consolidated financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the consolidated financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate, as well as the related net interest and penalties.

## Derivative Instruments

The Company evaluates its convertible notes and warrants to determine if those contracts or embedded components of those contracts qualify as derivatives. The result of this accounting treatment is that the fair value of the embedded derivative is recorded at fair value each reporting period and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statements of operations as other income or expense.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is reassessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities are classified in the balance sheet as current or non-current to correspond with its host instrument. The Company records the fair value of the remaining embedded derivative warrants at each balance sheet date and records the change in the fair value of the remaining embedded derivative warrants as other income or expense in the consolidated statements of operations.

## Fair Value Measurements

Fair value is defined as the price that would be received for an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. The following summarizes the three levels of inputs required to measure fair value, of which the first two are considered observable and the third is considered unobservable:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Company adjusts contingent consideration resulting from a business combination, as well as derivative financial instruments and warrant liabilities to fair value on a recurring basis. The fair value for other assets and liabilities such as cash, restricted cash, accounts receivable, receivables reserved for users, other receivables, prepaid expenses and other current assets, accounts payable and accrued expenses, and liabilities to customers have been determined to approximate carrying amounts due to the short maturities of these instruments.

## Earnings Per Share

Basic income (loss) per share is computed by dividing net income (loss) attributable to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive.



The following securities were excluded from weighted average diluted common shares outstanding for the three months ended September 30, 2021 and 2020 because their inclusion would have been antidilutive.

|  | As of September 30, |           |
|--|---------------------|-----------|
|  | 2021                | 2020      |
| Common stock options   | 466,176             | 51,942    |
| Common stock warrants  | 5,350,558           | 6,001,129 |
| Common stock issuable upon conversion of Senior Convertible Note | 2,120,000           | —         |
| Contingently issuable shares                                     | —                   | 2,667     |
| Total  | 7,936,734           | 6,055,738 |

## Revenue and Cost Recognition

The revenue of the Company is currently generated from online casino and sports betting (referred to herein as “iGaming” revenue), as well from the provision of esports event and team management services. The Company recognizes revenue in accordance with Topic 606 – *Revenue from Contracts with Customers* (“Topic 606”) when control of a product or service is transferred to a customer. The amount of revenue is measured at the transaction price, or the amount of consideration that the Company expects to receive in exchange for transferring a promised good or service. The transaction price includes estimates of variable consideration to the extent that it is probable that a significant reversal of revenue recognized will not occur.

Revenue generating activities of the Company are subject to value added tax (“VAT”) in most jurisdictions in which the Company operates. Revenue is presented net of VAT in the consolidated statements of operations. VAT receivables and VAT payables are included in other receivables and accounts payable and accrued expenses, respectively on the consolidated balance sheets. Sales to customers do not have significant financing components or payment terms greater than 12 months.

### iGaming Revenue

iGaming revenue is derived from the placement of bets by end-users, also referred to as customers, through online gaming sites. The transaction price in an iGaming contract, or Net Gaming Revenue (“NGR”), is the difference between gaming wins and losses, as further reduced by any nondiscretionary incentives awarded to the customer. Gaming transactions involve four performance obligations, namely the settlement of each individual bet, the honoring of discretionary incentives available to the customer through loyalty reward programs, the award of free spin and deposit match bonuses, and the winning of a casino jackpot. The total amount wagered by a customer is commonly referred to as the win or Gross Gaming Revenue (“GGR”). The GGR is allocated to each performance obligation using the relative standalone selling price (“SSP”) determined for iGaming contracts.

Revenue recognition for individual wagers is recognized when the gaming occurs, as such gaming activities are settled immediately. The revenue allocated to incentives, such as loyalty points offered through a rewards program, is deferred and recognized as revenue when the loyalty points are redeemed. Revenue allocated to free spins and deposit matches, referred to as bonuses, are recognized at the time that they are wagered. The revenue for jackpot games is recognized when the jackpot is won by the customer. The Company applies a practical expedient by accounting for its performance obligations on a portfolio basis as iGaming contracts have similar characteristics. The Company expects the application of the revenue recognition guidance to a portfolio of iGaming contracts will not materially differ from the application of the revenue recognition guidance on an individual contract basis.

The Company evaluates bets that its users place on websites owned by third party brands in order to determine whether it may recognize revenue on a gross basis, when acting as the principal provider of the wagering service, or on a net basis, when acting as an intermediary or agent. The principal in a wagering service involving a third party is generally the entity that controls the wagering service such that it has a right to the services being performed by the third party and can direct the third party in delivery of the service to its users. The Company records revenue on a gross basis as it has determined it is the principal in transactions involving third parties, such as revenue sharing arrangements, as it controls the wagering service being offered to the users such that it has a right to the service performed by third parties and can further direct third parties in providing services to users. The Company further records expenses related to its revenue sharing arrangements and other third-party iGaming expenses within costs of revenue in the consolidated statement of operations.

***Esports Gaming Service Revenue***

The Company derives revenue from the operation of esports game centers, sales of subscriptions to access cloud-based software used by independent operators of game centers, as well as from consulting and data analytic services provided to game operators. The revenue from the operation of esports centers by the Company is recognized when a customer purchases time to use the esports gaming equipment at each center. The revenue from time purchased by a customer and from the sale of food and beverages is recognized at the point of sale. The revenue derived from the sale of subscription services to cloud-based software used by game centers is recognized over the term of the contract, which generally can range from one month to one year in duration, beginning on the date the customer is provided access to the Company's hosted software platform.

The Company may further provide consultation services related to the use of hardware and equipment for gaming operations together with implementation services that include sourcing, training, planning, and installation of technology. The Company considers services related to hardware and equipment, implementation, and any design of user interface for the customer as separate performance obligations. Revenue for hardware equipment and design of custom user interface is recognized at a point in time upon delivery and completion. Implementation services are recognized over time, as services are performed.

The Company also has contracts with software companies to provide talent data analytics and related esports services, which include analytic development, other related services to develop software and applications for tournaments, to provide data support, data gathering, gameplay analysis and reporting which includes talent analytics and related esports services, including analytic development, data analysis, survey design, interview services, player dossiers, and expert services. The Company recognizes revenue from its data analytic services over the life of the contract utilizing the output method, using a direct measurement of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The Company elected to use the right to invoice practical expedient and recognize revenue based on the amounts invoiced. The payment terms and conditions vary by contract; however, the Company's terms generally require payment within 30 to 60 days from the invoice date.

The Company may further enter partnership contracts with strategic customers within the esports industry. The partnership contracts are negotiated agreements, which contain both licensing arrangements of intellectual property and development services, including fixed and variable components. The variability of revenue is driven by development plans and results of sales as specified by the partnership contract, which are known as of an invoice date. Partnership contracts generally do not have terms that extend beyond one year. The Company considers licensing arrangements and development services as separate performance obligations. Licensing revenues are recorded over time. Revenue associated with development is recognized over time, as labor is incurred.

Contracts that contain multiple performance obligations require an allocation of the transaction price to each distinct performance obligation based on a relative standalone selling price basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account the Company's overall pricing objectives, taking into consideration market conditions and other factors, including the value of the deliverables in the contracts, customer demographics, geographic locations, and the number and types of users within the contracts.

***Esports Event Management and Team Service Revenue***

The Company derives revenue from esports event management and team services. Esports event management services support the creation, production and delivery of an esports event by providing event staffing, gaming consoles, and other technical goods and services for a customer event that is either hosted live or online. The revenue generated from esports event management services is generally earned on a fixed fee basis per event. The esports team services offerings of the Company include recruitment and management services offered to sports clubs to facilitate their entrance into esports tournament competition. Team services provided to a customer may include player recruitment, administration of player contracts, processing of tournament admission, providing logistical arrangements, as well as providing ongoing support to the team during the event. Team services are earned on a fixed fee basis per tournament.

Esports event management and team services revenues are recognized over the term of the event or the relevant contractual term for services as this method best depicts the transfer of control to the customer. The Company recognizes revenue for event management services based on the number of days completed for the event relative to the total days of the event. Revenue from team management services is recognized from inception of the contract through the end of the tournament using the number of days completed relative to the total number of days in the contract term. Revenue collected in advance of the event management or team services is recorded as deferred revenue on the consolidated balance sheets. The Company may also enter into profit sharing arrangements which are determined based on the net revenue earned by the customer for an event in addition to a fixed fee. Revenue recognition for profit sharing arrangements is recognized at the time the revenue from the event is determined, which is generally at the conclusion of the event. An event or team services contract may further require the Company to distribute payments to event or tournament attendees resulting in the recognition of a processing fee by the Company. The Company does not recognize revenue from the processing of payments until the conclusion of the event or tournament.

The Company evaluates the service being provided under an esports event and team services contract to determine whether it should recognize revenue on a gross basis as the principal provider of the service, or on a net basis in a manner similar to that of an agent. The Company has determined that for esports event and team services contracts that allow for the assignment of individual tasks to a third-party contractor, the Company acts as the principal provider of the service being offered to the customer as it remains primarily responsible for fulfilling the contractual promise to the customer. In profit sharing arrangements, such as events that allow for the Company to share in the revenue earned by a customer for an event, the Company has determined it acts in the role of an agent to the customer as the event creator. The Company has also determined it acts as an agent when it collects a processing fee for performing the service of distributing prize money on behalf of its customers to event or tournament winners.

### ***Contract Liabilities***

Liabilities to customers include both player liabilities, consisting of a free spin bonus and a deposit match bonus, and the player reward liabilities. The free spin bonus provides the user the opportunity to a free play, or otherwise spin, on an iGaming casino slot machine without withdrawing a bet amount from the player's account. The deposit match bonus matches a player's deposit up to a certain specified percentage or amount. These bonuses represent consideration payable to a customer and therefore are treated as a reduction of the transaction price in determining NGR. The Company also offers non-discretionary loyalty rewards points to customers that can be redeemed for free play or cash. The Company allocates revenue from wagers to loyalty points rewards earned by users, thereby deferring a portion of revenue from users that participate in a loyalty reward program. The amount of revenue deferred related to loyalty points available to users is based on the estimated fair value of the loyalty point incentive available to the user.

The Company also records payments received in advance of performance under an esports gaming services contract or event management or team services contract as deferred revenue.

### **Recently Adopted Accounting Pronouncements**

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The new standard eliminates certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. For public business entities, it is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. ASU 2019-12 is effective for the Company beginning on July 1, 2021. The adoption of this guidance did not have a material impact on the accompanying unaudited condensed consolidated financial statements.

**Recently Issued Accounting Standards**

In June 2020, the FASB issued ASU No. 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*. This standard eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation. For public business entities, it is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years using the fully retrospective or modified retrospective method. Early adoption is permitted but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. ASU 2020-06 is effective for the Company beginning on July 1, 2022. The Company is currently evaluating the potential impact of this standard on its unaudited condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments included in ASU 2016-13 require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Although the new standard, known as the current expected credit loss ("CECL") model, has a greater impact on financial institutions, most other organizations with financial instruments or other assets (trade receivables, contract assets, lease receivables, financial guarantees, loans and loan commitments, and held-to-maturity (HTM) debt securities) are subject to the CECL model and will need to use forward-looking information to better evaluate their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 was originally effective for public companies for fiscal years beginning after December 15, 2019. In November of 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which delayed the implementation of ASU 2016-13 to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years for smaller reporting companies. ASU 2016-13 is effective for the Company beginning on July 1, 2023. The Company is currently evaluating the impact that the adoption of this guidance will have on its unaudited condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment (ASC 350)*. The standard eliminates the requirement to measure the implied fair value of goodwill by assigning the fair value of a reporting unit to all assets and liabilities within that unit (the Step 2 test) from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited by the amount of goodwill in that reporting unit. The guidance is effective for the Company beginning after December 15, 2022; and aligns with the effective date of ASU 2016-13. Early adoption is permitted. ASU 2017-04 is effective for the Company beginning on July 1, 2023. The Company is currently evaluating the impact that the adoption of this guidance will have on its unaudited condensed consolidated financial statements.

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that the Company adopts as of the specified effective date. The Company does not believe that the impact of recently issued standards that are not yet effective will have a material impact on the Company's financial position or results of operations upon adoption.

**Note 3 – Business Acquisitions*****Bethard Acquisition***

On July 13, 2021, the Company completed the acquisition of the business-to-consumer operations of Bethard Group Limited (“Bethard”) that provides sportsbook, casino, live casino and fantasy sport betting services with gaming licenses to customers in Sweden, Spain, Malta and Ireland (the “Bethard Business”). The acquisition of Bethard expands the gaming operations of the Company in Europe and provides the Company with increased opportunity to cross-sell its esports offerings to a larger customer base. The acquisition of Bethard resulted in the Company acquiring the outstanding share capital of Prozone Limited, a public liability company registered in Malta, that had previously received the assets of Bethard in a pre-closing restructuring by the seller. The initial payment of purchase consideration for Bethard included cash paid at closing of €13,000,000 (equivalent to \$15,346,019 using exchange rates in effect at the acquisition date), with the net cash paid at closing being €12,662,688 (equivalent to \$14,947,835 using exchange rates in effect at the acquisition date). The cash purchase consideration of Bethard also included a second payment (“Second Payment”) of €4,000,000 (approximately \$4,721,852 using exchange rates in effect at the acquisition date) that is due to be paid by the Company using the proceeds raised from the issuance of the Series A Preferred Stock (see discussion of the Series A Preferred Stock at Note 15). The total purchase consideration of Bethard also requires the Company to pay additional contingent cash consideration during the 24-month period following the acquisition date equal to 15% of net gaming revenue until the Additional Payment Due Date, with the percentage then decreasing to 12% of net gaming revenue for the remaining term ending July 2023. The total purchase consideration also provides for a payment of up to €7,600,000 (equivalent to \$8,971,519 using exchange rates in effect at the acquisition date) of contingent share consideration should a specific ambassador agreement be successfully assigned to the Bethard business acquired by the Company following the acquisition date.

The preliminary estimate of the purchase consideration, pending the completion of a final valuation to calculate the fair value of the contingent cash consideration, is as follows:

|  |    |                   |
|--|----|-------------------|
| Cash paid at closing                           | \$ | 15,346,019        |
| Second Payment                                 |    | 4,721,852         |
| Contingent cash consideration                  |    | 6,700,000         |
| Total preliminary purchase price consideration | \$ | <u>26,767,871</u> |

The preliminary estimated contingent cash consideration assumes a cash payment equal to 15% of net gaming revenue for the Bethard Business through the Additional Payment Due Date as set forth through the Second Payment Due Date estimated to be approximately four months, then reverting to 12% thereafter for the remainder of a two-year period following the acquisition date. The preliminary estimated contingent cash consideration is calculated using the applicable percentages applied to projected net gaming revenue of the Bethard Business at the date of acquisition.

The preliminary estimated purchase consideration excludes contingent share consideration payable to the sellers as there is no indication such contingent share consideration will become payable from a successful assignment of the specified ambassador agreement. The sellers of the Bethard Business have up to 6 months to assign the ambassador agreement to receive the contingent share consideration. After 6 months, the contingent share consideration is reduced by €422,222 (equivalent to \$498,417 using exchange rates in effect at the acquisition date) for each month the contract is not assigned to the Company through the 24 month anniversary. As of November 15, 2021, the ambassador agreement had not been assigned to the Company.

The preliminary purchase price and purchase price allocation pending a final valuation of assets acquired and liabilities assumed is as follows:

|                          |    |                   |
|--------------------------|----|-------------------|
| Cash                     | \$ | 398,184           |
| Intangible assets        |    | 17,300,000        |
| Goodwill                 |    | 11,924,685        |
| Other non-current assets |    | 1,180,463         |
| Accrued liabilities      |    | (5,634)           |
| Player liability         |    | (396,827)         |
| Deferred income taxes    |    | (3,633,000)       |
| Total                    | \$ | <u>26,767,871</u> |

The acquired intangible assets, useful lives and a preliminary estimate of fair value at the acquisition date follows:

|                      | <b>Useful Life<br/>(years)</b> | <b>Fair Value</b>    |
|----------------------|--------------------------------|----------------------|
| Tradename            | 10                             | \$ 3,700,000         |
| Player interface     | 5                              | 1,200,000            |
| Gaming licenses      | 2                              | 700,000              |
| Player relationships | 5                              | 11,700,000           |
| Total                |                                | <u>\$ 17,300,000</u> |

The goodwill of Bethard is not deductible for tax purposes. Transaction related expenses incurred for the acquisition of the Bethard Business are estimated to total \$765,863, with \$750,113 incurred during the year ended June 30, 2021 and \$15,750 incurred during the three months ended September 30, 2021. Transaction expenses are recorded in general and administrative expenses in the unaudited condensed consolidated statements of operations.

#### *Pro Forma Operating Results*

The following table summarizes pro forma results of operations for the three months ended September 30, 2020 as if Bethard, as well as the recent acquisitions of the Company completed during the year ended June 30, 2021, namely Argyll, Lucky Dino, EGL, ggCircuit and Helix, had been acquired on July 1, 2020. The results of operations of FLIP acquired during the year ended June 30, 2021 were excluded from the pro forma presentation for the three months ended September 30, 2020 due to immateriality. The results of operations of Bethard, as well as the previous acquisitions identified above, are included in the unaudited condensed consolidated statement of operations of the Company for the three months ended September 30, 2021, with any differences resulting from the acquisition of Bethard on July 13, 2021 assessed as immaterial.

The pro forma results of operations for the three months ended September 30, 2020 were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had these acquisitions been made as of July 1, 2020 and may not be useful in predicting the future results of operations for the Company. The actual results of operations may differ materially from the pro forma amounts included in the table below.

|  | <b>Three months ended<br/>September 30, 2020</b> |
|--|--|
| Net revenue                                  | \$ 16,950,997                                    |
| Net loss                                     | \$ (6,638,077)                                   |
| Net loss per common share, basic and diluted | \$ (0.40)  |

The pro forma operating results of operations for the three months ended September 30, 2020 are based on the individual historical results of the Company and the businesses acquired, with adjustments to give effect as if the acquisitions had occurred on July 1, 2020, after giving effect to certain adjustments including the amortization of intangible assets and depreciation of equipment resulting from the acquisitions.

#### **Note 4 – Other Receivables**

The components of other receivables are as follows:

|   | <b>September 30, 2021</b> | <b>June 30, 2021</b> |
|---|---------------------------|----------------------|
| Marketing receivables from revenue partners | \$ 132,123                | \$ 233,725           |
| Receivable from revenue sharing arrangement | 134,120                   | 137,461              |
| Other                                       | 537,461                   | 287,559              |
| Other receivables                           | <u>\$ 803,704</u>         | <u>\$ 658,745</u>    |

#### **Note 5 – Prepaid Expenses and Other Current Assets**

The components of prepaid expenses and other current assets are as follows:

|   | <b>September 30, 2021</b> | <b>June 30, 2021</b> |
|---|---------------------------|----------------------|
| Prepaid marketing costs                   | \$ 1,939,241              | \$ 1,727,669         |
| Prepaid insurance                         | 172,297                   | 175,620              |
| Other                                     | 810,566                   | 1,361,055            |
| Prepaid expenses and other current assets | <u>\$ 2,922,104</u>       | <u>\$ 3,264,344</u>  |

#### **Note 6 – Equipment**

The components of equipment are as follow:

|   |    |           |    |           |
|---|----|-----------|----|-----------|
| Computer equipment                                      | \$ | 321,615   | \$ | 258,049   |
| Furniture and equipment                                 |    | 263,835   |    | 249,070   |
| Leasehold improvements                                  |    | 221,787   |    | 221,787   |
| Finance lease asset                                     |    | 117,979   |    | 117,979   |
| Equipment, at cost                                      |    | 925,216   |    | 846,885   |
| Accumulated depreciation and finance lease amortization |    | (135,579) |    | (119,943) |
| Equipment, net  | \$ | 789,637   | \$ | 726,942   |

During the three months ended September 30, 2021 and 2020, the Company recorded total depreciation expense and finance lease amortization of \$46,736 and \$49,096, respectively.

#### Note 7 – Goodwill and Intangible Assets

A summary of the changes in the balance of goodwill is as follows:

|  | <b>Three months ended<br/>September 30, 2021</b> |
|--|--|
| Goodwill, balance at beginning of year | \$ 40,937,370                                    |
| Acquisition of Bethard                 | 11,924,685                                       |
| Foreign currency translation           | (534,034)  |
| Goodwill, balance at end of period     | <u>\$ 52,328,021</u>                             |

The intangible amounts comprising the intangible asset balance are as follows:

|   | <b>September 30, 2021</b>        |                                     |                                    | <b>June 30, 2021</b>             |                                     |                                |
|---|----------------------------------|-------------------------------------|------------------------------------|----------------------------------|-------------------------------------|--------------------------------|
|   | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Carrying<br/>Amount</b> |
| Tradename                               | \$ 10,929,120                    | \$ (524,752)                        | \$10,404,368                       | \$ 7,396,804                     | \$ (257,018)                        | \$ 7,139,786                   |
| Developed<br>technology and<br>software | 26,204,592                       | (2,531,938)                         | 23,672,654                         | 25,231,659                       | (1,242,605)                         | 23,989,054                     |
| Gaming licenses                         | 2,397,035                        | (859,679)                           | 1,537,356                          | 1,752,612                        | (573,876)                           | 1,178,736                      |
| Player relationships                    | 25,107,235                       | (2,478,505)                         | 22,628,730                         | 13,956,083                       | (1,253,135)                         | 12,702,948                     |
| Internal-use<br>software                | 804,308                          | (17,226)                            | 787,082                            | 777,171                          | (15,140)                            | 762,031                        |
| Total                                   | <u>\$ 65,442,290</u>             | <u>\$ (6,412,100)</u>               | <u>\$59,030,190</u>                | <u>\$ 49,114,329</u>             | <u>\$ (3,341,774)</u>               | <u>\$ 45,772,555</u>           |

During the three months ended September 30, 2021, the Company recorded amortization expense for its intangible assets of \$3,184,000.

The estimated future amortization related to definite-lives of intangible assets, including amortization related to the preliminary allocation of fair value to the intangible assets of Bethard, are as follows:

|             |                      |
|-------------|----------------------|
| Fiscal 2022 | \$ 9,535,009         |
| Fiscal 2023 | 12,151,162           |
| Fiscal 2024 | 11,512,694           |
| Fiscal 2025 | 11,512,694           |
| Fiscal 2026 | 9,067,502            |
| Thereafter  | 5,251,129            |
| Total       | <u>\$ 59,030,190</u> |

**Note 8 – Other Non-Current Assets**

The components of other non-current assets are as follows:

|  | September 30, 2021  | June 30, 2021       |
|--|---------------------|---------------------|
| iGaming regulatory deposits            | \$ 1,894,459        | \$ 755,474          |
| iGaming deposit with service providers | 424,172             | 434,738             |
| Rent deposit                           | 89,036              | 91,253              |
| Other                                  | 33,413              | 33,544              |
| Other non-current assets               | <u>\$ 2,441,080</u> | <u>\$ 1,315,009</u> |

**Note 9 – Account Payable and Accrued Expenses**

The components of account payable and accrued expenses are as follows:

|   | September 30, 2021   | June 30, 2021       |
|---|----------------------|---------------------|
| Trade accounts payable                  | \$ 4,121,839         | \$ 2,609,212        |
| Accrued marketing                       | 458,553              | 1,582,470           |
| Accrued payroll and benefits            | 1,145,570            | 1,093,263           |
| Accrued professional and other expenses | 5,437,602            | 2,451,366           |
| Accrued jackpot liabilities             | 436,145              | 432,504             |
| Accrued legal settlement (Note 13)      | —                    | 289,874             |
| Total                                   | <u>\$ 11,599,709</u> | <u>\$ 8,458,689</u> |

**Note 10 – Related Party Transactions**

The Company reimburses the Chief Executive Officer for office rent and related expenses. During the three months ended September 30, 2021 and 2020, the Company incurred charges of \$1,200 and \$1,200, respectively from the Chief Executive Officer for office expense reimbursement. As of September 30, 2021 and 2020, there were no amounts payable to the Chief Executive Officer.

On May 4, 2017, the Company entered into a services agreement and a referral agreement with Contact Advisory Services Ltd., an entity that is partly owned by a member of the Board of Directors. During the three months ended September 30, 2021 and 2020 the Company incurred general and administrative expenses of \$11,109 and \$43,579, respectively, in accordance with these agreements. As of September 30, 2021 and 2020, there were no amounts payable to Contact Advisory Services Ltd.

The Company has retained legal and corporate secretarial services from a member of its Board of Directors through a consultancy agreement dated August 1, 2020 and an employment agreement dated June 15, 2020. The legal consultancy agreement requires payments of £18,000 (\$24,221 translated using the exchange rate in effect at September 30, 2021) per month to the law firm that is controlled by this member of the Board of Directors. The individual also receives payroll of \$500 per month through the employment agreement as Chief Legal Officer and Company Secretary.

**Note 11 – Leases**

The unaudited condensed consolidated balance sheet allocation of assets and liabilities related to operating and finance leases is as follow:

| Condensed Consolidated Balance Sheet Caption |   | September 30, 2021  | June 30, 2021       |
|--|---|---------------------|---------------------|
| <b>Assets:</b>                               |   |                     |                     |
| Operating lease assets                       | Operating lease right-of-use assets                       | \$ 1,168,635        | \$ 1,272,920        |
| Finance lease assets                         | Equipment, net  | 104,086             | 114,540             |
| Total lease assets                           |   | <u>\$ 1,272,721</u> | <u>\$ 1,387,460</u> |
| <b>Liabilities:</b>                          |   |                     |                     |
| Current:                                     |   |                     |                     |
| Operating lease liabilities                  | Operating lease liability - current                       | \$ 375,628          | \$ 414,215          |
| Finance lease liabilities                    | Current portion of notes payable and other long-term debt | 50,702              | 50,702              |
| Long-term:                                   |   |                     |                     |
| Operating lease liabilities                  | Operating lease liability - non-current                   | 820,082             | 878,809             |
| Finance lease liabilities                    | Notes payable and other long-term debt                    | 53,385              | 63,161              |
| Total lease liabilities                      |   | <u>\$ 1,299,797</u> | <u>\$ 1,406,887</u> |

The operating lease expense and finance lease expense for the three months ended September 30, 2021 were \$114,903 and \$34,505, respectively. The rent expense for short-term leases was not material to the unaudited condensed consolidated financial statements.

Weighted average remaining lease terms and discount rates follow:

|   | <b>September 30, 2021</b> | <b>June 30, 2021</b> |
|---|---------------------------|----------------------|
| <b>Weighted Average Remaining Lease Term (Years):</b> |                           |                      |
| Operating leases                                      | 3.96                      | 4.11                 |
| Finance leases  | 2.25                      | 2.50                 |
| <b>Weighted Average Discount Rate:</b>                |                           |                      |
| Operating leases                                      | 6.84%                     | 6.82%                |
| Finance leases  | 8.00%                     | 8.00%                |

The future minimum lease payments at September 30, 2021 follows:

|                                    | <b>Operating Lease</b> | <b>Finance Lease</b> |
|------------------------------------|------------------------|----------------------|
| Fiscal 2022                        | \$ 352,031             | \$ 38,027            |
| Fiscal 2023                        | 311,484                | 50,702               |
| Fiscal 2024                        | 321,421                | 25,352               |
| Fiscal 2025                        | 235,579                | —                    |
| Fiscal 2026                        | 74,109                 | —                    |
| Thereafter                         | 71,526                 | —                    |
| Total lease payments               | 1,366,150              | 114,081              |
| Less: imputed interest             | 170,440                | 9,994                |
| Present value of lease liabilities | <u>\$ 1,195,710</u>    | <u>\$ 104,087</u>    |

## Note 12 – Long-Term Debt

### Notes payable and other long-term debt

The components of notes payable and other long-term are as follows:

|  | <b>September 30, 2021</b> | <b>June 30, 2021</b> |
|--|---------------------------|----------------------|
| Notes payable  | \$ 280,536                | \$ 330,654           |
| Finance lease obligation (See Note 11)                   | 104,087                   | 113,863              |
|  | 384,623                   | 444,517              |
| Less current portion of notes payable and long-term debt | (219,024)                 | (223,217)            |
| Notes payable and other long-term debt                   | <u>\$ 165,599</u>         | <u>\$ 221,300</u>    |

The Company assumed a note payable of £250,000 (equivalent to \$327,390) in connection with its acquisition of Argyll on July 31, 2020. The term loan was issued on April 30, 2020 and has a maturity of 3 years, bears interest at 3.49% per annum over the Bank of England base rate, and is secured by the assets and equity of Argyll. The monthly principal and interest payments on the note payable commenced in June 2021 and continue for two years through May 2023. The principal balance of the notes payable on September 30, 2021 was £208,333 (\$280,536 using exchange rates at September 30, 2021). Interest expense on the note payable was \$1,101 for the three months ended September 30, 2021.

**Senior Convertible Note**

On June 2, 2021, the Company issued a Senior Convertible Note in the principal amount of \$35,000,000 million with the Company receiving proceeds at issuance of \$32.5 million, net of debt issuance costs of \$2.5 million. The Senior Convertible Note matures on June 2, 2023, at which time the Company is required to repay the original principal balance and a “minimum return” equal to 6% of any outstanding principal. The aggregate principal of the Senior Convertible Note repayable at maturity is \$37,100,000 and the Senior Convertible Note accrues interest at rate of 8% per annum payable in cash monthly. The Senior Convertible Note was issued with 2,000,000 Series A Warrants and 2,000,000 Series B Warrants. On the date of issuance, the Company recorded the fair value of the Series A Warrants and Series B Warrants as a discount to the Senior Convertible Note totaling \$26,680,000. The debt discount is being amortized to interest expense over the term of the Senior Convertible Note using the effective interest method. The obligation resulting from the issuance of the Series A Warrants and Series B Warrants was determined to qualify for liability classification on the unaudited condensed consolidated balance sheet. See below for further discussion of the Series A Warrants and Series B Warrants.

The Senior Convertible Note is convertible, at the option of the holder, into shares of the Company’s common stock at a conversion price of \$17.50 per share. The conversion amount is calculated as the principal balance identified for conversion plus a minimum return of 6% on such principal balance. At any time after issuance, the Company has the option, subject to certain conditions, to redeem some or all of outstanding principal, inclusive of any minimum return due to the holder based on the number of days the principal is outstanding.

The Senior Convertible Note is subject to a most favored nation provision and standard adjustments in the event of any stock split, stock dividend, stock combination, recapitalization or other similar transaction. If the Company enters into any agreement to issue, or issue any variable rate securities, the holder of the Senior Convertible Note has the additional right to substitute such variable price (or formula) for the conversion price. If the holder were to substitute a floor price of \$2.1832 as the variable price, the Company would be required to settle in cash any difference between the market value of the shares subject to conversion at the floor price and the market value of the shares using the variable price, excluding any reference to the floor. The holder of the Senior Convertible Note also has the right to have the Company redeem all or a portion of the Senior Convertible Note at a redemption price equal to 106% of the portion of the Senior Convertible Note being redeemed should the Company provide notice of incurring additional debt.

If an event of default occurs, the holder of the Senior Convertible Note has the right to alternate conversion (“Alternate Conversion”) and may elect to convert the Senior Convertible Note, inclusive of a 15% premium payable in cash due upon such an acceleration of the applicable principal, at a price (“Alternate Conversion Price”) equal to the greater of the floor price of \$2.1832 or a price derived from the volume weighted average price of the Company’s common stock at the time of Alternate Conversion. If the Alternate Conversion were to include the floor price of \$2.1832 as the Alternate Conversion Price, the Company would be required to settle in cash any difference between the market value of the shares subject to the Alternate Conversion using the floor price and the market value of the shares using the Alternate Conversion Price, excluding any reference to the floor.

In connection with an event of default, the holder may require the Company to redeem in cash any or all of the Senior Convertible Note. The redemption price will equal 115% of the outstanding principal of the Convertible Note to be redeemed, plus accrued and unpaid interest and unpaid late charges thereon, or an amount equal to market value of the shares of the Company’s common stock underlying the Convertible Note, as determined in accordance with the Convertible Note, if greater. The noteholder will not have the right to convert any portion of a Senior Convertible Note, to the extent that, after giving effect to such conversion, the holder, together with certain related parties, would beneficially own in excess of 4.99% of the shares of our common stock outstanding immediately after giving effect to such conversion. The holder may from time to time increase this limit to 9.99%, provided that any such increase will not be effective until the 61st day after delivery of a notice to the Company of such increase.

In addition, unless obtain approval is obtained from the Company’s stockholders as required by Nasdaq, the Company is prohibited from issuing any shares of common stock upon conversion of the Senior Convertible Note or otherwise pursuant to the terms of the Senior Convertible Note, if the issuance of such shares of common stock would exceed 19.99% of the Company’s outstanding shares of common stock, or otherwise exceed the aggregate number of shares of common stock which the Company may issue without breaching the Company’s obligations under the rules and regulations of Nasdaq.

In connection with a change of control, as defined in the Senior Convertible Note, the holder may require the Company to redeem all or any portion of the Senior Convertible Note. The redemption price per share will equal the greatest of (i) 115% of the outstanding principal of the Senior Convertible Note to be redeemed, and accrued and unpaid interest and unpaid late charges thereon, (ii) 115% of the market value of the shares of our common stock underlying the Senior Convertible Note, as determined in accordance with the Senior Convertible Note, and (iii) 115% of the aggregate cash consideration that would have been payable in respect of the shares of the Company's common stock underlying the Senior Convertible Note, as determined in accordance with the Senior Convertible Note.

The Company is subject to certain customary affirmative and negative covenants regarding the incurrence of indebtedness, the existence of liens, the repayment of indebtedness, the payment of cash in respect of dividends, distributions or redemptions, and the transfer of assets, among other matters. The Company will also will be subject to certain financial covenants relating to available cash, ratio of outstanding indebtedness to market capitalization and minimum cash flow. The Company is also subject to financial covenants as it relates minimum revenues commencing June 30, 2022.

The Company evaluated its compliance with the debt covenants in the Senior Convertible Note as of September 30, 2021 and the period from October 1, 2021 through November 15, 2021 and determined that it had not maintained compliance with certain covenants in the Senior Convertible Note. The Company therefore requested and received a waiver dated October 13, 2021 for (i) any known breaches or potential breaches of financial covenants in effect related to the available cash test and minimum cash flow test through December 25, 2021, (ii) any known breach resulting from the placement of a lien on the outstanding share capital of Prozone Limited, the entity that holds the assets of Bethard, through Additional Payment Due Date (see discussion of the Bethard acquisition in Note 3) and (iii) any known breach which would result from the Company's announcement that it would purchase an equity interest in Game Fund Partners Group LLC through the contribution of up to 200,000 shares of common stock. In addition, the Company requested and received an amendment to the Senior Convertible Note wherein the permitted ratio of outstanding debt to market capitalization was increased temporarily from 25% to 35% through December 25, 2021.

In consideration for the waiver, the Company agreed to permit the immediate conversion of up to \$7,500,000 of the outstanding balance of the Senior Convertible Note at the Alternate Conversion Price into shares of common stock of the Company. In the event of default following December 25, 2021, the holder may exercise any and all rights available to it following such a default that includes redemption of the Senior Convertible Note for cash. The holder may also choose to convert any outstanding indebtedness in the form of the Alternate Conversion Price as provided in the Senior Convertible Note, subject to the terms and conditions contained therein, until such time as the Company is in compliance with the covenants of the agreement. The holder of the Senior Convertible Note has converted a principal amount of \$468,500, \$403,500 and \$806,500 on October 14, 2021, November 4, 2021 and November 9, 2021, respectively into 100,001, 100,023 and 200,007 shares of common stock, respectively.

On November 2, 2021, the Company obtained an additional waiver from the holder of the Senior Convertible Note in connection with its announcement to commence an underwritten registered public offering of its 10.0% Series A Preferred Stock (discussed in the Note 17). In consideration for this waiver, the Company agreed to increase the cash price payable upon a redemption of the Senior Convertible Note by the Company to be equal to 110% of the conversion amount, as defined in agreement as any unpaid principal, minimum return due to the holder, and unpaid interest due on such redemption date. The Company also agreed to pay the holder of the Senior Convertible Note an amount payable in cash of up to \$1.5 million under the terms of a registration rights agreement. The Company recognized the amount payable to the holder of the Senior Convertible Note under the registration rights agreement in other non-operating loss in the unaudited condensed consolidated statement of operations for the three months ended September 30, 2021.

**Warrants**

The Company issued 2,000,000 Series A Warrants and 2,000,000 Series B Warrants to the holder of the Senior Convertible Note. The Series A Warrants may be exercised at any time after issuance for one share of common stock of the Company at an exercise price of \$17.50. The Series B Warrants may only be exercised to the extent that the indebtedness owing under the Senior Convertible Note is redeemed. As a result, for each share of common stock determined to be issuable upon a redemption of principal of the Senior Convertible Note, one Series B Warrant will vest and be eligible for exercise at an exercise price of \$17.50. The Series A Warrants and Series B Warrants are callable by the Company should the volume weighted average share price of the Company exceed \$32.50 for each of 30 consecutive trading days following the date such warrants become eligible for exercise. The Series A Warrants and Series B Warrants also contain a beneficial ownership limitation of 4.99% which may be increased or decreased up to 9.99%, provided that any such increase will not be effective until the 61st day after delivery of a notice to us of such increase.

The Company determined the Series A and Series B Warrants should be classified as a liability as the warrants are redeemable for cash in the event of a fundamental transaction, as defined in the Senior Convertible Note agreement, which includes a change in control. The Company has recorded a liability for the Series A Warrants and Series B Warrants at fair value on the issuance date with subsequent changes in fair value reflected in earnings. At June 30, 2021, the Company determined the total fair value of the Series A Warrants and Series B Warrants to be \$23,500,000, with a fair value of \$13,600,000 determined for the Series A Warrants and a fair value of \$9,900,000 determined for the Series B Warrants. At September 30, 2021, the Company determined the total fair value of the Series A Warrants and Series B Warrants to be \$11,691,400 with a fair value of \$7,851,400 determined for the Series A Warrants and a fair value of \$3,840,000 determined for the Series B Warrants. The change in fair value of warrant liability recorded in the consolidated statement of operations for the three months ended September 30, 2021 was \$11,808,600. Refer to Note 16 for additional disclosures related to the change in the fair value of the warrant liabilities.

The proceeds from the issuance of the Senior Convertible Note were allocated to the Series A Warrants and Series B Warrants using the with-and-without method. Under this method, the Company first allocated the proceeds from the issuance of the Senior Convertible Note to the Series A Warrants and Series B Warrants based on their initial fair value measurement, and then allocated the remaining proceeds to the Senior Convertible Note. The debt discount on the Senior Convertible Note is being amortized over its term of two years. The Company recorded \$1,639,494 to interest expense for amortization of the debt discount on the Senior Convertible Note for the three months ended September 30, 2021. The Company recorded total interest expense of \$2,339,494 on the Senior Convertible Note for the three months ended September 30, 2021.

The maturities of long-term debt are as follows:

|   |    |            |
|---|----|------------|
| Fiscal 2022                                   | \$ | 219,024    |
| Fiscal 2023                                   |    | 37,275,594 |
| Total before unamortized discount             |    | 37,494,618 |
| Less: unamortized discount and issuance costs |    | 29,167,997 |
| Total   | \$ | 8,326,621  |

The components of our long-term debt on the unaudited condensed consolidated balance sheet at September 30, 2021 follows:

|  |    |           |
|--|----|-----------|
| Current portion of notes payable and long-term debt  | \$ | 219,024   |
| Notes payable and long-term debt (non-current)       |    | 165,599   |
| Senior convertible note, net of unamortized discount |    | 7,941,998 |
| Total  | \$ | 8,326,621 |

**Note 13 – Commitments and contingencies****Commitments**

On October 1, 2019, the Company entered into a sponsorship agreement with an eSports team (“Team”) to obtain certain sponsorship-related rights and benefits that include the ability to access commercial opportunities. The Company had agreed to initially pay the Team \$516,000 in cash and \$230,000 in common stock during the period from October 1, 2019 to June 30, 2022. On August 6, 2020, the Company entered into an amended and restated sponsorship agreement (the “Amended Sponsorship Agreement”) with the Team that included cash payments totaling \$2,545,000 and the issuance of common stock totaling \$825,000 for the term of the agreement ending January 31, 2023. The cost of the sponsorship arrangement with the Team is recorded to sales and marketing expense on the unaudited condensed consolidated statements of operations over the term of the Amended Sponsorship Agreement. During the three months ended September 30, 2021, the Company has recorded \$322,043 in sales and marketing expense related to the Team sponsorship. There were no outstanding amounts payable to the Team at September 30, 2021. The remaining amounts payable under this agreement are estimated at \$750,000 for the year ended June 30, 2022, and \$750,000 for the year ended June 30, 2023.

On August 17, 2020, the Company entered into an agreement with Bally's Corporation, an operator of various online gaming and wagering services in the state of New Jersey, USA, to assist the Company in its entrance into the sports wagering market in New Jersey under the State Gaming Law. The commencement date of the arrangement with Bally's was March 31, 2021. The Company paid \$1,550,000 on June 11, 2021 and issued 50,000 shares of common stock on July 1, 2021 in connection with the commencement of the arrangement. The Bally's agreement extends for 10 years from the date of commencement requiring the Company to pay \$1,250,000 and issue 10,000 shares of common stock on each annual anniversary date. During the three months ended September 30, 2021, the Company has recorded \$342,333 in sales and marketing expense for its arrangement with Bally's Corporation. There were no outstanding amounts payable to Bally's Corporation at September 30, 2021. As of September 30, 2021, the annual commitments by the Company under this agreement are estimated at \$1,250,000 and 10,000 shares of common stock payable each year through the year ended June 30, 2030.

The Company has signed a subscription and operating agreement with Game Fund Partners LLC to support the development of a planned \$300,000,000 game fund. Under the agreements, the Company will initially invest approximately \$2,000,000 of Company shares into 20% of the general partnership of the fund, and the Company will become part of the management and investment committee that manages an investment fund focused on joint projects and investment vehicles to fuel growth in the areas of gaming, data, blockchain, online gaming, and joint casino hotel investments. The Company has agreed to contribute 100,000 shares to the fund during the period in which the fund receives total capital commitments of \$100,000,000. The Company has agreed to contribute an additional 100,000 shares to the fund during the period in which the fund reaches total capital commitments of \$200,000,000. As of September 30, 2021, the Company has not contributed any shares of its common stock to the fund.

In the ordinary course of business, the Company enters into multi-year agreements to purchase sponsorships with professional teams as part of its marketing efforts to expand competitive esports gaming. At September 30, 2021, the commitments under these agreements are estimated at \$2,349,589 for the year ended June 30, 2022, \$2,403,891 for the year ended June 30, 2023, \$2,015,495 for year ended June 30, 2024, \$1,126,153 for the year ended June 30, 2025 and \$609,668 for the year ended June 30, 2026.

## Contingencies

In September 2018, Boustead Securities, LLC ("Boustead") notified the Company of a claim that they were owed \$192,664, as well as warrants to purchase 1,417,909 shares of the Company's common stock as compensation for their acting as the placement agent for the sale of the Company's securities between June 2017 and 2018. This matter was brought to arbitration on December 7, 2020. On February 3, 2021, the arbitration awarded Boustead Securities, LLC \$289,874 in damages and allowable costs (excluding attorneys' fees) with interest accruing approximately \$21 per day. The Company paid \$294,051 to settle the arbitration award, inclusive of accrued interest, on August 24, 2021.

The Company at times may be involved in litigation relating to claims arising from its operations in the normal course of business. The Company is currently not involved in any litigation that it believes could have a material adverse effect on our financial condition or results of operations.

## Note 14 – Revenue and Geographic Information

The Company is a provider of iGaming, traditional sports betting and esports services that commenced revenue generating operations during the year ended June 30, 2021 with the acquisitions of Argyll, FLIP, EGL, Lucky Dino, GGC, Helix and Bethard. The revenues and long-lived assets of Argyll, EGL, Lucky Dino and Bethard have been identified to our international operations as they principally service customers in Europe, inclusive of the United Kingdom. The revenues and long-lived assets of FLIP, GGC and Helix principally service customers in the United States.

The Company did not record revenue during the year ended June 30, 2020. A disaggregation of revenue by type of service for the three months ended September 30, 2021 and 2020 is as follows:

|                                    | Three months ended September 30, |            |
|------------------------------------|----------------------------------|------------|
|                                    | 2021                             | 2020       |
| Online betting and casino revenues | \$ 14,662,588                    | \$ 183,410 |
| Esport service revenues            | 1,745,704                        | 38,982     |
| Total                              | \$ 16,408,291                    | \$ 222,392 |

A summary of revenue by geography for the three months ended September 30, 2021 and 2020 is as follows:

|               | Three months ended September 30, |                |
|---------------|----------------------------------|----------------|
|               | 2021                             | 2020           |
| United States | \$ 1,520,266                     | \$ 38,982      |
| International | 14,888,026                       | 183,410        |
| Total         | <u>\$ 16,408,291</u>             | <u>222,392</u> |

A summary of long-lived assets by geography is as follows:

|               | September 30, 2021    | June 30, 2021        |
|---------------|-----------------------|----------------------|
|               |                       |                      |
| United States | \$ 45,939,270         | \$ 48,081,926        |
| International | 69,818,293            | 41,942,870           |
| Total         | <u>\$ 115,757,563</u> | <u>\$ 90,024,796</u> |

## Note 15 – Equity

### Preferred Stock

The Company has authorized 10,000,000 shares of preferred stock with a par value of \$0.001 per share. There were no preferred shares issued and outstanding at September 30, 2021 and June 30, 2021.

On November 10, 2021, the Company designated 1,725,000 shares of preferred stock as 10% Series A cumulative redeemable convertible preferred stock, herein referred to as Series A Preferred Stock, with a par value of \$0.001 per share and liquidation value of \$11.00. On November 11, 2021, the Company announced that it priced an underwritten registered public offering to issue 800,000 shares of Series A Preferred Stock at a purchase price of \$10.00 per share for total gross proceeds of \$8.0 million, before deducting underwriting discounts and other estimated offering expenses. Each share of Series A Preferred Stock is convertible into one share of the Company's common stock at a conversion price of \$17.50 per common share. Subject to earlier conversion or redemption, the Series A Preferred Stock matures five years from issuance, or November 15, 2026, at which point the Company must redeem the shares of Series A Preferred Stock in cash. Dividends on the Series A Preferred Stock accrue daily and are cumulative from the date of issuance. The dividends on the Series A Preferred Stock are payable monthly in arrears on the last day of each calendar month, when, as and if declared by the Company's Board of Directors, at the rate of 10.0% per annum, which is equivalent to \$1.00 per annum per share.

### Common Stock

The following is a summary of common stock issuances for the three months ended September 30, 2021:

- During the three months ended September 30, 2021, the Company issued 78,527 shares of common stock for services with a weighted average fair value of \$7.31 per share.
- During the three months ended September 30, 2021, the Company issued 8,500 shares of common stock from the exercise of stock options with a weighted average exercise price of \$4.82 or \$40,970 in the aggregate.

The following is a summary of common stock issuances for the three months ended September 30, 2020:

- During the three months ended September 30, 2020, the Company issued 291,256 shares of its common stock for services rendered with a weighted average fair value of \$6.43 per share or \$1,873,842 in the aggregate. Of the 291,256 shares of common stock issued, 117,450 shares of common stock were related to services received in a previous period. The Company recorded these shares as liabilities to be settled in stock at June 30, 2020 with a fair market value of \$927,855 in the aggregate. For the period ended September 30, 2020, the Company recorded \$927,855 as a reduction of current liabilities and increase to additional paid-in capital.
- On September 14, 2020, the Company issued 93,808 shares of common stock in relation to the Flip acquisition. At September 30, 2020, the Company recorded the estimated fair value on the shares issued in the amount of \$500,000.
- During the three months ended September 30, 2020, the Company issued 275,463 shares of common stock for the exercise of warrants with a weighted average exercise price of \$3.72 per share or \$1,024,924 in the aggregate. Of the 275,463 shares of common stock issued, 20,000 shares of common stock were related to an exercise in the previous period. The Company recorded these shares at June 30, 2020 with a fair market value of \$4.25 per share or \$85,000.
- During the three months ended September 30, 2020, the Company issued 650,000 shares of common stock for the Argyll acquisition that was completed on July 31, 2020. The Company recorded these shares at fair value in the amount of \$3,803,150. Additionally, the Company issued 9,630 shares as a finder's fee in relation to the acquisition. The Company expensed these shares as general and administrative in the amount of \$54,232.



**At-the Market Equity Offering Program**

On September 3, 2021, the Company entered “at the market” equity offering program (“ATM”) to sell up to an aggregate of \$20,000,000 of common stock. The shares are being issued pursuant to the Company’s shelf registration statement on Form S-3 (File No. 333-252370) and the Company filed a prospectus supplement, dated September 3, 2021 with the SEC in connection with the offer and sale of the shares pursuant to the Equity Distribution Agreement with the broker. There were no shares sold under the ATM during the three months ended September 30, 2021. The Company has sold an aggregate of 1,250 shares through the ATM through November 12, 2021 for gross proceeds of \$8,046. The Company had \$19,991,954 of gross proceeds remaining under the ATM at November 12, 2021.

**Common Stock Warrants**

On April 16, 2020, the Company closed an offering, (the “April 2020 Offering”), in which it sold 1,980,000 units consisting of one share of common stock and one Unit A Warrant and one Unit B Warrant, for a total of 3,960,000 warrants, with each warrant entitling the holder to purchase one share of common stock price at \$4.25 per share. The Company issued an additional 209,400 Unit A Warrants and 209,400 additional Unit B Warrants to the underwriter pursuant to an over-allotment option each entitling the holder to purchase one share of common stock at \$0.01 per share. There were 1,136,763 of Unit A Warrants outstanding on September 30, 2021. The Unit B Warrants expired one year from the date of issuance on April 19, 2021 and there were no Unit B Warrants outstanding at September 30, 2021.

In connection with the April 2020 Offering the Company also issued 1,217,241 shares of common stock and 2,434,482 warrants (“Conversion Warrants”) to purchase one share of common stock at \$4.25 per share upon the conversion of \$4,138,585 of the Company’s convertible debt and accrued interest. There were 40,582 Unit A Conversion Warrants outstanding at September 30, 2021. The Unit B Conversion Warrants have been fully exercised for shares of common stock.

On July 31, 2020, the Company issued 1,000,000 warrants in connection with its acquisition of Argyll with an exercise price of \$8.00. These warrants were exercised during the year ended June 30, 2021. On June 2, 2021, the Company also issued 2,000,000 Series A Warrants and 2,000,000 Series B Warrants with an exercises price of \$17.50 to the holders of the Senior Convertible Note. There were no Series A Warrants exercised during the three months ended September 30, 2021. The Series B Warrants may not be exercised until there is a redemption of principal under the Senior Convertible Note. The Series B Warrants were not exercisable at September 30, 2021.

A summary of the warrant activity follows:

|                                 | <b>Number of<br/>Warrants</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Life (Years)</b> | <b>Intrinsic<br/>Value</b> |
|---------------------------------|-------------------------------|--|--|----------------------------|
| Outstanding, July 1, 2020       | 5,264,592                     | \$ 4.28  | 0.86   | \$ 14,654,296              |
| Issued                          | 5,603,674                     | 14.38  |  |                            |
| Exercised                       | (5,503,167)                   | 4.88   |  |                            |
| Exchanged                       | -                             | -  |  |                            |
| Forfeited or cancelled          | (14,541)                      | 4.25   |  |                            |
| Outstanding, June 30, 2021      | 5,350,558                     | 14.19  | 3.14   | 8,743,588                  |
| Issued                          | —                             | —  |  |                            |
| Exercised                       | —                             | —  |  |                            |
| Forfeited or cancelled          | —                             | —  |  |                            |
| Outstanding, September 30, 2021 | <u>5,350,558</u>              | <u>\$ 14.19</u>                                    | 2.89   | \$ 3,138,768               |

**Common Stock Options**

On September 10, 2020, the Company’s board of directors adopted the 2020 Equity and Incentive Plan (the “2020 Plan”) that provides for the issuance of incentive and non-qualified stock options, restricted stock, restricted stock units and stock appreciation rights to officers, employees, directors, consultants, and other key persons. Under the 2020 Plan, the maximum number of shares of common stock authorized for issuance was 1,500,000 shares. Each year on January 1, for a period of up to nine years, the maximum number of shares authorized for issuance under the 2020 is automatically increased by 233,968 shares. At September 30, 2021, there was a maximum of 1,733,968 shares of common stock authorized for issuance under the 2020 Plan. There were no additional equity awards eligible for issuance from the 2017 Stock Incentive Plan that had been adopted by the Company on August 1, 2017. The outstanding stock options granted under the 2017 Plan were transferred to the 2020 Plan. As of September 30, 2021, there were 1,281,959 shares of common stock available for future issuance under the 2020 Plan.

A summary of the Company's stock option activity is as follows:

|                                 | Number of<br>Options | Weighted Average<br>Exercise Price |
|---------------------------------|----------------------|------------------------------------|
| Outstanding, June 30, 2021      | 474,676              | \$ 5.49                            |
| Granted                         | —                    | —                                  |
| Exercised                       | 8,500                | —                                  |
| Cancelled                       | —                    | —                                  |
| Outstanding, September 30, 2021 | 466,176              | \$ 5.41                            |

As of September 30, 2021, the weighted average remaining life of the options outstanding was 4.04 years.

### Stock Based Compensation

During the three months ended September 30, 2021 and 2020, the Company recorded stock-based compensation expense of \$882,372 and \$1,007,672, respectively, for the amortization of stock options and the issuance of common stock to employees and contractors for services which has been recorded as general and administrative expense in the unaudited condensed consolidated statements of operations.

The Company had previously recognized stock-based compensation expense of \$927,855 during its year ended June 30, 2020 related to the issuance of 117,450 shares of common stock for services rendered, comprised of 1,333 shares granted to management, 16,966 shares granted to employees, and 99,151 shares granted to consultants. At June 30, 2020, the Company had recorded the fair value of these shares issued as liabilities to be settled in stock. During the first quarter of the Company's fiscal year ended June 30, 2021, the Company settled the balance of the liabilities to be settled in stock through the issuance of common stock in a non-cash transaction.

### Note 16 – Fair Value Measurements

The following financials instruments were measured at fair value on a recurring basis:

|                             | September 30, 2021 |         |         |               |
|-----------------------------|--------------------|---------|---------|---------------|
|                             | Total              | Level 1 | Level 2 | Level 3       |
| Warrant liability (Note 12) | \$ 11,691,400      | \$ —    | \$ —    | \$ 11,691,400 |

  

|                             | June 30, 2021 |         |         |               |
|-----------------------------|---------------|---------|---------|---------------|
|                             | Total         | Level 1 | Level 2 | Level 3       |
| Warrant liability (Note 12) | \$ 23,500,000 | \$ —    | \$ —    | \$ 23,500,000 |

A summary of the changes in Level 3 financial instruments for the three months ended September 30, 2021 is as follows:

|  |               |
|--|---------------|
| Balance at June 30, 2021   | \$ 23,500,000 |
| Change in fair value of Series A and Series B Warrants issued with Senior Convertible Note (Note 12) | (11,808,600)  |
| Balance at September 30, 2021  | \$ 11,691,400 |

The warrants outstanding at September 30, 2021 issued with the Senior Convertible Note were valued using a Monte Carlo based valuation model with the following assumptions:

|                             | September 30, 2021 | June 30, 2021 |
|-----------------------------|--------------------|---------------|
| Contractual term, in years  | 2.00 – 4.00        | 2.00 – 4.00   |
| Expected volatility         | 110% – 135%        | 120% – 140%   |
| Risk-free interest rate     | 0.22% – 0.68%      | 0.24% – 0.65% |
| Dividend yield              | —                  | —             |
| Conversion / exercise price | \$ 17.50           | \$ 17.50      |

***Argyll Warrant Valuation***

During the year ended June 30, 2021, the Company issued 1,000,000 warrants in connection with its acquisition of Argyll. Each warrant entitled the holder to purchase one share of common stock at exercise price of \$8.00 per share. The Company initially estimated the fair value of the warrants issued to be \$5,488,171 as of the Argyll acquisition date of July 31, 2020. At September 30, 2020, the Company estimated the fair value these warrants to be \$3,387,218, resulting in a gain on the change in fair value of warrant liability in the amount of \$2,100,953. The Company valued the warrants using the Black-Scholes option pricing model with the following terms on July 31, 2020: (a) exercise price of \$8.00, (b) volatility rate of 187.40%, (c) discount rate of 0.48%, (d) term of three years, and (e) dividend rate of 0%. The Company valued the warrant using the Black-Scholes option pricing model with the following terms on September 30, 2020: (a) exercise price of \$8.00, (b) volatility rate of 183.25%, (c) discount rate of 0.28%, (d) term of 2 years and 10 months, and (e) dividend rate of 0%.

Subsequent to September 30, 2020, the holder of the warrants issued in the Argyll acquisition exercised the warrants resulting in the issuance of 1,000,000 shares of common stock by the Company. Prior to the exercises of the warrants, the Company recorded a measurement period adjustment to reduce the acquisition date fair value of the warrant liability by \$2,738,095 using a Monte Carlo simulation. The issuance of the shares of common stock upon exercise of the warrants were recorded at their settlement date fair value of \$15,480,000 comprised of \$8,000,000 of cash received from the exercise, and non-cash settlement of the warrant liability totaling \$7,480,000. The change in fair value of the warrant liability between the acquisition date fair value of \$2,750,076 and the settlement date fair value of \$7,480,000 resulted in a charge of \$4,729,924 in the statement of operations for the year ended June 30, 2021.

**Note 17– Subsequent Events**

On October 1, 2021, the Company issued a total of 1,121,150 stock options to employees and non- employee directors with an exercise price of \$6.71 under the 2020 Equity and Incentive Plan.

***10% Series A Cumulative Redeemable Convertible Preferred Stock***

On November 11, 2021, the Company announced the pricing of an underwritten registered public offering to issue 800,000 shares of 10.0% Series A Cumulative Redeemable Convertible Preferred Stock, herein referred to as Series A Preferred Stock, with a liquidation preference of \$11.00 per share, at a purchase price of \$10.00 per share for total gross proceeds of \$8.0 million before deducting underwriting discounts and other estimated offering expenses. The offering is expected to close on or about November 16, 2021 subject to customary closing conditions. The Company has filed an application to list the Series A Preferred Stock on the NASDAQ Capital Market under the symbol “GMBLP.”

The offering is being made pursuant to an effective shelf registration statement on Form S-3 (No. 333-252370) that the Company previously filed with the Securities and Exchange Commission (the “SEC”), which became effective on February 5, 2021.

***Metaverse Partners***

In Note 19, Subsequent Events to the audited financial statements for the year ended June 30, 2021 that appeared in the Company’s Annual Report on Form 10-K, filed with the SEC on October 13, 2021, the Company provided disclosure regarding a Services Agreement, Loan Agreement and Put-Agreement with Metaverse Partners LP (“Metaverse”). To date, the Company has not received any funds from Metaverse and, after consultation with the Company’s lender, the Company has decided not to move forward with the contemplated Metaverse transaction at this time.

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*This section of this report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. As the Company’s acquisition of Bethard took place during the three months ended September 30, 2021, this Management Discussion and Analysis of Financial Condition and Results of Operations speaks only to the historical operations of the Company during the 2022 fiscal year end and the Company’s historical business prior such acquisition. Forward looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.*

**Overview**

Esports is the competitive playing of video games by amateur and professional teams as a spectator sport. Esports typically takes the form of organized, multiplayer video games that include genres such as real-time strategy, fighting, first-person shooter and multiplayer online battle arena games. As of September 30, 2021, the three most popular esports Strike: Global games were *Dota 2*, *League of Legends* (each multiplayer online battle arena games) and *Counter Offensive* (a first-person shooter game). Other popular games include *Fortnite*, *StarCraft II*, *Call of Duty*, *Overwatch*, *Hearthstone* and *Apex Legends*. Most major professional esports events and a wide range of amateur esports events are broadcast live via streaming services including twitch.tv and youtube.com.

EEG is an esports focused iGaming and entertainment company with a global footprint. EEG’s strategy is to build and acquire betting and related platforms, and lever them into the rapidly growing esports vertical. We are focused on driving growth in two markets that include iGaming (“EEG iGaming”) and esports (“EEG Games”).

While EEG is focused on driving customer growth, revenues and brand recognition in both the iGaming and esports markets, it continues to operate as one reportable segment in the delivery of entertainment to its customers through its wagering and esports platforms. This determination considers the organizational structure of the Company and the nature of financial information available and reviewed by the chief operating decision maker to assess performance and make decisions about resource allocations.

**EEG iGaming:**

EEG iGaming includes the esports betting platform with full casino and sportsbook functionality and services for iGaming customers. Our in-house gambling software platform, Phoenix, is a modern reimagined sportsbook that caters to both millennial esports bettors as well as traditional sports bettors. Phoenix is being developed through the assets and resources from our FLIP acquisition.

EEG’s goal is to be a leader in the large and rapidly growing sector of esports real-money wagering, offering fans the ability to wager on professional esports events in a licensed and secure environment. From February 2021, under the terms of our Maltese Gaming Authority (MGA) license, we are now able to accept wagers from residents of over 180 jurisdictions including countries within the European Union, Canada, New Zealand and South Africa, on our “Vie.bet” platform.

Alongside the Vie.bet esports focused platform, EEG owns and operates:

- Argyll Entertainment’s flagship Sportnation.bet online sportsbook and casino brand, licensed in the UK and Ireland,
- Lucky Dino’s 5 online casino brands licensed by the MGA on its in-house built iDefix casino-platform, and
- The recently acquired Bethard online sportsbook and casino brands, operating under MGA, Spanish, Irish and Swedish licenses.

On August 17, 2020, we announced entry into a multi-year partnership with Twin River Worldwide Holdings, Inc, now Bally’s Corporation, to launch their proprietary mobile sports betting product, “Vie.gg”, in the state of New Jersey. We intend to launch this platform, which was previously licensed in Curacao, live in the state prior to December 31, 2021, as a real money wagering “skin” of Bally’s Atlantic City, the holder of a New Jersey Casino License, Internet Gaming Permit and a Sports Wagering License. In accordance with standard practice, prior to our CSIE licensure, we submitted our transactional waiver to the New Jersey Division of Gaming Enforcement (“DGE”) on October 28, 2021, the next step on the roadmap to going live. However, there is no assurance that the “live” date will be met as there are numerous technology and other approvals required before going “live”. See section II- Item1A, Risk Factors.

In total, we currently hold five Tier-1 gambling licenses (Malta, UK, Ireland, Spain and Sweden) and are in the process of acquiring one in New Jersey. Our acquisitions of Argyll Entertainment, Lucky Dino and Bethard provide a foothold in mature markets in Europe into which we believe we can cross-sell our esports offerings.

### **EEG Games:**

EEG Games' focus is on providing esports entertainment experiences to gamers through a combination of 1) in-person experiences (at Helix Centers), 2) online tournaments (through our recently acquired EGL tournament platform), and 3) player-vs-player wagering (through our soon-to-be-released LANDuel product). In order to provide exposure to our platforms, we have signed numerous exclusive marketing relationships with professional sports organizations across the NFL, NBA, NHL and MLS.

Underpinning our focus on esports and EEG Games customers, is our proprietary infrastructure software, ggCircuit. ggCircuit is the leading provider of local area network ("LAN") Center management software and services, enabling us to seamlessly manage mission critical functions such as game licensing and payments.

We believe that as the size of the market and the number of esports enthusiasts continues to grow, so will the number of esports enthusiasts who gamble on events, which would likely increase the demand for our platform.

We have financed operations primarily through the sale of equity securities and short-term debt. Until revenues are sufficient to meet our needs, we will continue to attempt to secure financing through equity or debt securities.

### **Results of Operations**

*Comparison of the three months ended September 30, 2021 and 2020*

#### **Revenue**

Revenue for the three months ended September 30, 2021 and 2020 totaled \$16.4 million and \$0.2 million, respectively. The revenue for the three-month ended September 30, 2021 is primarily attributable the iGaming operations of Bethard, Lucky Dino and Argyll.

#### **Cost of Revenue**

Cost of revenue for the three months ended September 30, 2021 and 2020 totaled \$6.5 million and 0.4 million, respectively. The cost of revenue for the three months ended September 30, 2021 primarily includes \$4.2 million for payment processing fees, platform costs, gaming duties and costs related to revenue sharing arrangements, \$1.5 million for the game provider expenses and \$0.8 million for other direct expenses related to the delivery of services.

#### **Sales and Marketing**

Sales and marketing expense for the three months ended September 30, 2021 totaled \$7.4 million, an increase of \$6.8 million over the \$0.6 million recorded for the three months ended September 30, 2020. The increase was primarily attributable to \$4.6 million for affiliate costs related to iGaming services, \$1.7 million for sponsorship agreements with professional sports clubs and our service partners and \$0.4 million for other advertising and promotion expenses including event promotion.

#### **General and Administrative**

General and administrative expense for the three months ended September 30, 2021 totaled \$11.2 million, an increase of \$8.1 million over the \$3.1 million recorded for the three months ended September 30, 2020. The increase was primarily attributable to increases in payroll costs of \$4.0 million, depreciation and acquisition related intangibles of \$3.0 million, professional fees, including accounting and legal expenses of \$0.8 million and \$0.3 million related to other general and administrative cost including incremental costs for information technology related disbursements.

## Other Income

Other income increased \$6.1 million from \$2.0 million for the three in ended September 30, 2020 to \$8.1 million for the three months ended September 30, 2021. The increase in other income for the three months ended September 30, 2021 results primarily from a reduction in fair value of the warrant liability established for warrants convertible into shares of common stock that had been issued to the holder of the Senior Convertible Note. The fair value of the warrant liability, determined using a Monte Carlo based valuation model, decreased \$11.8 million from \$23.5 million at June 30, 2021 to \$11.7 million at September 30, 2021. This was offset by interest expense primarily attributable to amortization of the debt discount and cash interest payable on the Senior Convertible Note of \$2.3 million, as well as recognition of an expense of \$1.5 million for the Company's estimate of the amount payable to the holder of the Senior Convertible Note under the registration rights agreement. During the three months ended September 30, 2020, the Company recorded a favorable change of \$2.1 million to the preliminary fair value of the warrant liability that was included in the preliminary purchase consideration for the Argyll acquisition. A preliminary estimate of fair value of the warrant liability of \$5.5 million had been included in the preliminary purchase consideration of Argyll at the acquisition date of July 31, 2020. The calculation of the fair value of the warrant liability established for the Argyll acquisition decreased to \$3.4 million at September 30, 2020, resulting a benefit recognized in the unaudited condensed consolidated statement of operations for three months ended September 30, 2020.

## Capital Resources and Liquidity

### Liquidity and Going Concern

The Company must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date the unaudited condensed consolidated financial statements included in this report are issued. The evaluation of going concern under the accounting guidance requires significant judgment. The Company must consider it has historically incurred losses and negative cash flows in recent years as it has prepared to grow its esports business through acquisition and new venture opportunities. The Company must also consider its current liquidity as well as future market and economic conditions that may be deemed outside the control of the Company as it relates to obtaining financing and generating future profits. As of September 30, 2021, the Company had approximately \$2.8 million of available cash on-hand. On November 12, 2021, one business day preceding this filing, the Company had approximately \$1.3 million of available cash on-hand. The Company believes that its current level of cash and cash equivalents are not sufficient to fund its operations and obligations for the next 12 months without additional financing. Although the Company has financing available, as further described below, the ability to raise financing using these sources is subject to several factors, including market and economic conditions, performance, and investor sentiment as it relates to the Company and the esports and iGaming industry. These conditions were determined to raise substantial doubt regarding the Company's ability to continue as a going concern for a period of at least one year from the date of issuance of these unaudited condensed consolidated financial statements.

In determining whether there is substantial doubt about the Company's ability to continue as a going concern, the Company may consider the effects of any mitigating plans for additional sources of financing. The Company identified additional financing sources it believes are currently available to fund its operations and drive future growth that include (i) the announcement on November 11, 2021 of the pricing of an underwritten registered public offering by the Company to issue 800,000 shares of 10.0% Series A Cumulative Redeemable Convertible Preferred Stock, herein referred to as Series A Preferred Stock, with a liquidation preference of \$11.00 per share, and at a purchase price of \$10.00 per share, for total gross proceeds to be raised of \$8.0 million before deducting underwriting discounts, other estimated offering expenses and the payment of €4,000,000 (approximately \$4,721,852 using exchange rates in effect at the acquisition date) due for the acquisition of the Bethard business (see Note 3 for discussion of the Bethard acquisition and Note 15 and Note 17 for further discussion of the Series A Preferred Stock), (ii) the ability to access capital using the at-the-money ("ATM") equity offering program available to the Company whereby the Company has sold 1,250 shares to raise gross proceed of \$8,046 and has \$19,991,954 in gross proceeds remaining under the ATM equity offering program (iii) the ability to sell shares of common stock of the Company through a shelf registration statement on Form S-3 (File No. 333-252370) declared effective by the Securities and Exchange Commission (SEC) on February 5, 2021, and (iv) the ability to raise additional financing from other sources. These above plans are likely to require the Company to place reliance on several factors, including favorable market conditions, to access additional capital in the future. These plans were therefore determined not to be sufficient to overcome the presumption of substantial doubt about the Company's ability to continue as a going concern.

The Company's sources and (uses) of cash for the three months ended September 30, 2021 and 2020 are as follows:

|   | 2021            | 2020           |
|---|-----------------|----------------|
| Cash used in operating activities               | \$ (3,391,219)  | \$ (3,263,843) |
| Cash used in investing activities               | \$ (15,042,881) | \$ (1,120,647) |
| Cash provided by (used in) financing activities | \$ (899,362)    | \$ 1,024,924   |

At September 30, 2021, we had total current assets of \$13.0 million and total current liabilities of \$26.4 million. Net cash used in operating activities for the three months ended September 30, 2021 was \$3.4 million, which includes a net loss of \$0.6 million, offset by non-cash adjustments of \$6.0 million.

Net cash used in investing activities for the three months ended September 30, 2021 totaled \$15.0 million principally related to the Bethard acquisition.



**Off Balance Sheet Arrangements**

None.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not required.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. For the reasons set forth below, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide a reasonable level of assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Previously identified material weakness**

During fiscal 2021, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not operating effectively at a reasonable assurance level. The material weaknesses identified during management's assessment included insufficient period-end financial reporting controls as it relates to segregation of duties, reviews of completed or non-recurring transactions, and procedures for preparing the financial statements and disclosures, and insufficient controls as it relates to information technology and evaluation of operating effectiveness of information technology controls.

During fiscal 2022, and the three months ended September 30, 2021, we continue to implement remediation initiatives in response to the previously identified material weakness, including, but not limited to, initiating the hiring of additional experienced accounting and compliance personnel, and engaging with third party experts to strengthen the implementation of additional disclosure controls and procedures, including those designed to strengthen our segregation of duties and review processes related to accounting and financial statement presentation and disclosures. While we believe that these efforts have improved and will continue to improve our disclosure controls and procedures, remediation of the material weakness will require validation and testing of the operating effectiveness of disclosure internal controls over a sustained period of financial reporting cycles.

Our remediation efforts activities are ongoing and are subject to continued management review supported by ongoing design and testing. Notwithstanding the material weakness, our management has concluded that the consolidated financial statements included elsewhere in this Quarterly Report present fairly, in all material respects, our financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

**Changes in internal control over financial reporting**

Other than our ongoing remediation efforts with respect to our disclosure controls and procedures, which extend to our internal control over financial reporting, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

**Inherent limitation on the effectiveness of internal control**

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

In September 2018, Boustead Securities, LLC (“Boustead”) notified the Company of a claim that they were owed \$192,664, as well as warrants to purchase 1,417,909 shares of the Company’s common stock as compensation for their acting as the placement agent for the sale of the Company’s securities between June 2017 and 2018. This matter was brought to arbitration on December 7, 2020. On February 3, 2021, the arbitration awarded Boustead Securities, LLC \$289,874 in damages and allowable costs (excluding attorneys’ fees) with interest accruing approximately \$21 per day. The Company paid \$294,051 to settle the arbitration award, inclusive of accrued interest, on August 24, 2021.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. With the exception of the foregoing, we are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries’ officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

**Item 1A. Risk Factors**

There are no changes to our risk factors that constitute material changes from the risk factors previously disclosed in our Form 10-K, filed with the SEC on October 13, 2021.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended September 30, 2021, we issued 78,527 shares of common stock as compensation for services provided.

During the three months ended September 30, 2021, we issued 8,500 shares of common stock upon the exercise of stock options.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosure**

Not Applicable.

**Item 5. Other Information**

There is no other information required to be disclosed under this item which was not previously disclosed.

**Item 6. Exhibits.**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 1.1                | <a href="#">Equity Distribution Agreement, dated as of September 3, 2021, between Esports Entertainment Group, Inc. and Maxim Group LLC (incorporated herein by reference to Exhibit 1.1 to that Current Report on Form 8-K filed with the Securities and Exchange Commission on September 3, 2021).</a>              |
| 10.1               | <a href="#">Form of Amendment Agreement, dated July 13, 2021, between the Company and Gameday Group Plc. (incorporated herein by reference to Exhibit 10.1 to that Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2021).</a>  |
| 10.2               | <a href="#">Form of Pledge of Shares Agreement, dated July 13, 2021, between Esports Entertainment Group, Inc., Gameday Group Plc., and Prozone Limited (incorporated herein by reference to Exhibit 10.2 to that Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2021).</a> |
| 10.3               | <a href="#">Form of Side Letter dated July 13, 2021 (incorporated herein by reference to Exhibit 10.3 to that Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2021).</a>   |
| 31.1*              | <a href="#">Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).</a>  |
| 31.2*              | <a href="#">Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).</a>  |
| 32.1**             | <a href="#">Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| 32.2**             | <a href="#">Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| 101.INS*           | XBRL Instance Document  |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB*           | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 104                | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)  |

\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

**ESPORTS ENTERTAINMENT GROUP, INC.**

Date: November 15, 2021

By: */s/ Grant Johnson*

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Grant Johnson  
Chief Executive Officer, and  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: November 15, 2021

By: */s/ Daniel Marks*

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Daniel Marks  
Chief Financial Officer  
(Principal Accounting Officer and  
Principal Financial Officer)